

SENATE BUDGET AND FISCAL REVIEW
SENATOR STEVE PEACE, CHAIR

INFORMATIONAL HEARING

LEGISLATIVE REVIEW OF PROPOSITION 51
“TRAFFIC CONGESTION RELIEF AND SAFE SCHOOL BUS ACT”

Revised
STAFF BRIEFING PAPER

State Capitol, Room 4203
Sacramento, CA

Wednesday Oct 2, 2002
10:00a.m.

Staff Briefing Paper on Proposition 51

If approved by the voters, Proposition 51:

- a) Earmarks 30 percent of the state sales tax paid on the sale and lease of motor vehicles, beginning on January 1, 2003. The proposition shifts revenue from the General Fund to a new fund (the Traffic Congestion Relief and Safe School Bus Trust Fund). The revenue in the new fund is earmarked for transportation, environmental, school-bus purchase, bicycle and pedestrian activities or programs.
- b) Requires the Legislature to allocate an additional \$10 million to the Environmental Enhancement and Mitigation Program Fund. Under current law, the program is funded from the State Highway Account.

The initiative provides a circuit breaker to temporarily reduce or eliminate the transfers to the Trust Fund in the event the state General Fund experiences a downturn. The circuit breaker is intended to mitigate the initiative's impact in the event of a General Fund shortfall.

The Legislative Analyst estimates that the proposition shifts to the Trust Fund about \$420 million in the current year (for the six-month period ending June 30, 2003), \$910 million in 2003-04 and increasing amounts annually thereafter. The allocation to the Environmental Enhancement and Mitigation Program Fund also would cost the highway account or the General Fund \$10 million annually.

In this essay, staff detail the allocations from the Trust Fund, the initiative's effect on the state's infrastructure, and its effect on the General Fund condition.

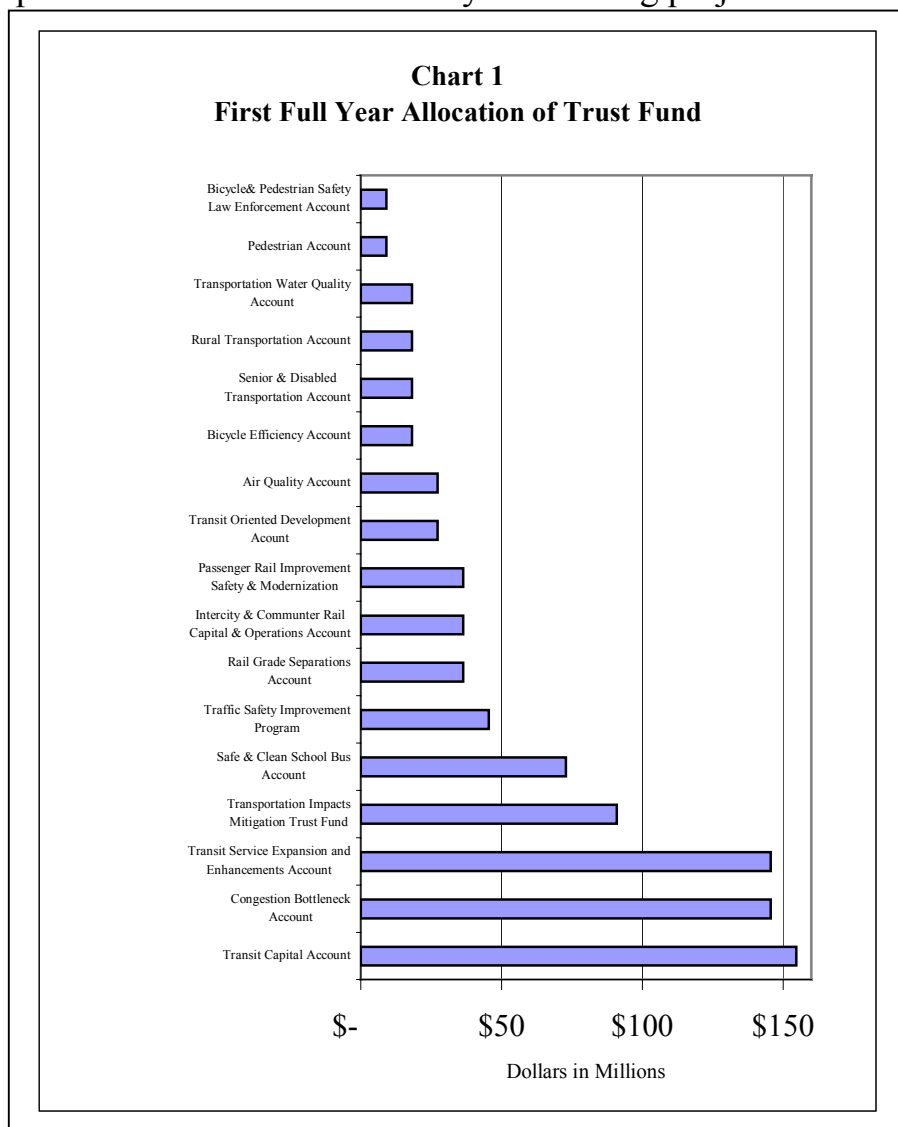
Allocations from the Trust Fund

The proposition allocates sales tax revenue in the Trust Fund to 17 programs, accounts or funds.

Chart 1 displays the allocation of the trust fund revenue for 2003-04. As displayed, half the allocations are made to three accounts: The Transit Capital,

Congestion Bottleneck and Transit Service Expansion and Enhancement accounts. Specifically:

1. ***Transit Capital Account.*** The initiative deposits seventeen percent (\$155 million in 2003-04) in the account for allocation by the California Transportation Commission for purchasing rolling stock, constructing or improving commuter and light rail lines, purchasing rights-of-way, and building fueling stations.
2. ***Congestion Bottleneck Account.*** Proposition 51 requires sixteen percent (\$146 million in 2003-04) to be deposited in the account annually for funding projects in the Traffic Congestion Relief Plan (TCRP) and traffic flow improvement projects.
3. ***Transit Service Expansion and Enhancements Account.*** The proposition allocates sixteen percent (\$146 million in 2003-04) to this account for funding public transit operations, transit improvements, and transit security.
4. ***Transportation Impacts Mitigation Trust Fund.*** The initiative deposits ten percent (\$91 million in the budget year) in the fund for allocation by the Resources Agency for environmental enhancement or mitigation projects.



5. ***Safe and Clean School Bus Account.*** Proposition 51 deposits eight percent (\$73 million in the budget year) in the account for allocation by the Department of Education to purchase or lease new school buses.
6. ***Traffic Safety Improvement Program.*** The initiative deposits five percent (\$46 million in the budget year) in the program for allocation by Caltrans for grants to regional transportation planning agencies for projects that reduce fatalities or injuries.
7. ***Rail Grade Separations Account.*** The initiative deposits four percent (\$36 million in the budget year) in the account for allocation by the California Transportation Commission to separate rail lines from streets, roads, and highways.
8. ***Intercity and Commuter Rail Capital and Operations Account.*** The proposition deposits four percent (\$36 million in the budget year) in the account for allocation by the California Transportation Commission to Caltrans and public agencies for transit operations, rolling stock, and capital improvements.
9. ***Passenger Rail Improvement Safety and Modernization Account.*** The proposition deposits four percent (\$36 million in the budget year) in the account for allocation by the State Controller to improve transit capital.
10. ***Transit Oriented Development Account.*** The proposition deposits three percent (\$27 million in the budget year) for allocation by the Secretary of Business, Transportation, and Housing for developing public use facilities associated with public transit stations.
11. ***Air Quality Account.*** The proposition deposits three percent (\$27 million in the budget year) in the account for allocation by the Air Resources Board for the Carl Moyer Air Quality Program. The Carl Moyer program was established to provide grants to local air districts for projects that reduce Nitrogen Oxide emissions.
12. ***Bicycle Efficiency Account.*** The initiative deposits two percent (\$18 million in the budget year) in the account for allocation by Caltrans for bicycle commute projects.

13. ***Senior and Disabled Transportation Account.*** The initiative deposits two percent (\$18 million in the budget year) in the account for allocation to seniors and people with disabilities.
14. ***Rural Transportation Account.*** The initiative deposits two percent (\$18 million in the budget year) to the account for allocation to rural transit operators.
15. ***Transportation Water Quality Account.*** The proposition deposits two percent (\$18 million in the budget year) for allocation by the Water Resources Control Board for water quality mitigation projects.
16. ***Pedestrian Account.*** The initiative deposits one percent (\$9 million in the budget year) in the account for pedestrian safety projects.
17. ***Bicycle and Pedestrian Safety Law Enforcement Account.*** The initiative deposits one percent (\$9 million in the budget year) in the account for traffic safety law enforcement grants, and for pedestrian education grants.

From these accounts and programs, the initiative also requires allocations to the projects detailed in Table 1. These identified projects have “first call” on all revenues deposited in the accounts. Most of the project allocations are made over several years. Some of the allocations are permanent.

Questions for the Committee.

- The initiative makes specific allocations to programs and projects. On what basis were the allocations made?
- In crafting the proposal, why was 30 percent of the sales tax on cars shifted?

Table 1
Allocations Made in Proposition 51
Dollars in Millions

<u>City, County or Conservancy</u>	<u>Project</u>	<u>Funding Provided</u>	
		<u>Annual Allocation</u>	<u>Through</u>
San Francisco	Golden Gate Park Concourse	\$ 10.0	2006-07
Costa Mesa	Costa Mesa Freeway	10.0	2011-12
Irvine	Remote airport parking	10.0	2007-08
Los Angeles	Union Station	12.5	2009-10
<i>Not specified</i>	Laval Road interchange	5.0	2003-04
Laguna Woods	El Toro road	2.0	2003-04
<i>Not specified</i>	Route 5/I-5 connectors	13.7	2013-14
<i>Not specified</i>	I-5 HOV lanes	2.0	2006-07
Santa Clarita	Magic Mountain Parkway	4.5	2008-09
Santa Clarita	Magic Mountain Parkway	2.5	2005-06
Los Angeles	I-5/Hasley Road interchange	3.0	2004-05
<i>Not specified</i>	US 101 improvements	10.0	2010-11
Los Angeles	Freeways around CSU Long Beach	5.0	2004-05
La Canada-Flintridge	Soundwalls	5.0	2004-05
San Francisco	Golden Gate National Recreation Area	0.8	permanent
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Sacramento	Railroad Museum	1.0	permanent
San Francisco	Fort Mason	0.8	permanent
Sacramento	Regional Transit	10.0	2012-13
Lake Tahoe	Alternatively fueled boats	6.0	2005-06
San Francisco	Fort Mason	1.0	2005-06
Sacramento	Railroad Museum	7.0	2003-04
Los Angeles	Exposition Boulevard	7.5	2012-13
Oakland	Port of Oakland	5.0	2012-13
Oakland	Oakland School for the Arts	1.5	2012-13
<i>Not specified</i>	Sand Canyon	10.0	2006-07
San Bernardino	Norton Air Force Base	7.5	2006-07
Orange	Laguna Coast Wilderness Park	10.0	2014-15
Riverside	County Habitat Conservation Plan	6.0	permanent
San Joaquin Conservancy	Conservation	0.5	permanent
Santa Monica Conservancy	Conservation	8.0	permanent
Sacramento	Parkway	1.0	permanent
Riverside	San Timoteo Park project	3.0	permanent
Riverside	La Sierra/Norco Hill project	1.0	permanent
San Francisco	Golden Gate National Recreation Area	2.0	2004-05
Laguna Woods	Wilderness Park	2.0	2003-04
San Diego	River restoration	3.5	2003-04
Los Angeles	Ballona Creek	5.0	2013-14
Sacramento	Riverfront reconnection	2.0	2004-05
Los Angeles	Ballona Creek	5.0	2003-04
<i>Not specified</i>	Mobil Ocean	0.5	2003-04
Coachella Valley	Conservancy	2.0	permanent
San Diego	San Dieguito	1.0	2003-04
Sacramento	Natural lands	10.0	2003-04
Sacramento	Deer Creek corridor	1.5	permanent

Project Selection Criteria

Under existing law, the State Transportation Improvement Program (STIP) allocates funds for various projects throughout the state. Every two years the Department of Transportation (Caltrans) prepares a fund estimate based on the availability of state and federal funds over a five year period. The fund estimate, which is approved by the California Transportation Commission, provides the basis for funding projects in the STIP. Seventy-five percent of all STIP funds are allocated for the Regional Transportation Improvement Program (RTIP), and the remaining twenty five percent are allocated for the Interregional Transportation Improvement Program (ITIP).

Through the STIP process, each of the forty-six Regional Transportation Planning Agencies (RTPA) throughout the state develop a list of projects to receive RTIP funding based on a twenty-year regional transportation plan. Projects contained in the regional twenty-year plan are selected from a list of projects proposed by the cities, counties, and transit agencies within each RTPA. Once the project lists are completed, the RTPAs submit their proposals to the CTC for approval. The CTC may approve or reject each RTPA proposal, however individual projects within the proposals may not be added or deleted. Caltrans selects projects to receive ITIP funding.

The budget committee labors to avoid funding transportation projects in the Budget Act; the exception to this practice occurred when the Legislature approved the Traffic Congestion Relief Plan (TCRP) in the 2000-01 Budget Act. The differences between the TCRP projects and the Proposition 51 projects are as follows:

- 1. The TCRP projects were funded with General Fund surplus revenues. The projects in Proposition 51 are funded by sales tax revenues.*
- 2. Almost all of the TCRP projects require local funds to complete the projects. It is unknown if any of the projects in Proposition 51 require local funds to complete the projects.*
- 3. A majority of the projects in the TCRP were selected from the RTPAs twenty-year regional transportation plans. It is unknown if the Proposition 51 projects are based on the RTPAs twenty-year regional transportation plans.*
- 4. The Transportation Commission and the Legislature have the authority to amend any of the projects in the TCRP. The Proposition 51 projects cannot be modified in any way.*

5. *The projects in the TCRP were vetted with the regional transportation planning agencies and subject to a minimum of three public hearings in the Legislature.*

Questions for the Committee. In light of these issues, the committee may wish consider the following questions:

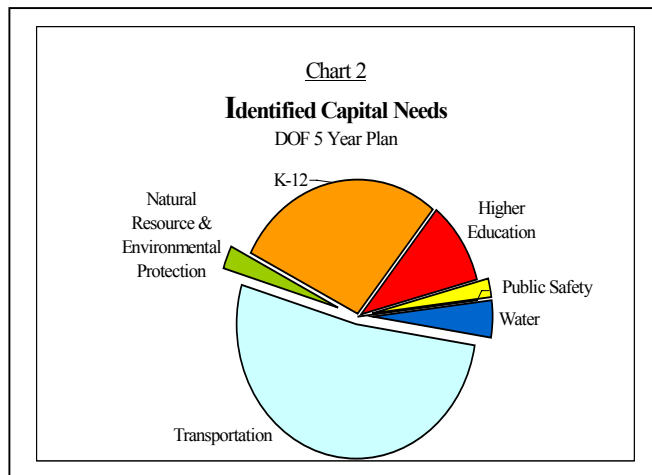
- Were the Regional Transportation Planning Agencies (RTPA) consulted with before the transportation projects were selected?
- Are any of the identified transportation projects in the initiative included in the State Transportation Improvement Program (STIP)? If not, how were the projects in the initiative selected?
- Do any of these projects contain a local match requirement? If so how many projects will receive full funding?
- Are any of the projects in the initiative included in the 20 year regional transportation plans?

Funding Infrastructure

The initiative increases funding for capital outlay, primarily transportation projects. Prior to the qualification of Proposition 51, the Department of Finance studied the state's capital needs. The department published its study this summer, as required by Chapter 606, Statutes of 1999 (AB 1473, Hertzberg).

The infrastructure plan identifies facilities and infrastructure needs for departments based on a multi-year assessment of their missions and objectives. The plan focuses on state-owned facilities, K-12 schools, community colleges, and local transportation systems. The plan, summarized in the chart below, identifies a need of \$56 billion over the next five years, including:

- \$27.7 billion for transportation,
- \$14.9 billion for K-12 schools,
- \$5.4 billion for higher education,
- \$2.4 billion to increase the supply, quality and management of water,

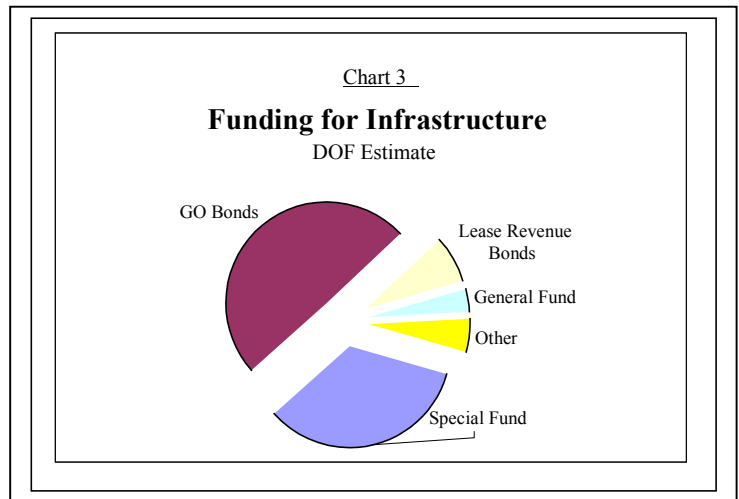


- \$1.5 billion for natural resource and environmental protection,
- \$1.1 billion for public safety.

Transportation represents over half the total need. Resources and environmental protection account for less than three percent. The plan proposes to use a mix of fund sources to implement the infrastructure plan over the next five years, including:

- \$1.6 billion--General Fund
- \$14.4 billion--Special Funds
- \$21.1 billion --General Obligation Bonds
- \$3.2 billion--Lease Revenue Bonds
- \$13.6 billion--Federal Funds
- \$2.2 billion--other sources

The department expects to fund most of the infrastructure needs with bond funds and special funds. The General Fund would finance less than five percent of the infrastructure needs.



Transportation Generally Funded Through the STIP Process. Transportation funding needs are best represented in the State Transportation Improvement Program (STIP) where capacity-increasing and new construction projects are programmed, and the State Highway Operation and Protection Program (SHOPP) where the state's safety and maintenance activities are programmed. In this process projects are programmed through a consensus achieved between state and regional planners. Both programs have a multi-year plan for state and federal resources that are available for projects. The California Transportation Commission (CTC) adopts the STIP and SHOPP based upon the five-year projections of available state and federal funds. The infrastructure plan includes the following funding for transportation projects over the next five years based on the most recent plans adopted by the CTC:

- \$7.7 billion for the SHOPP,
- \$5.6 billion for local assistance,
- \$5.5 billion for STIP projects,
- \$3.2 billion for project programming,

- \$1.2 billion for the Public Transportation Account,
- \$4.3 billion for Transportation Investment Fund programming.

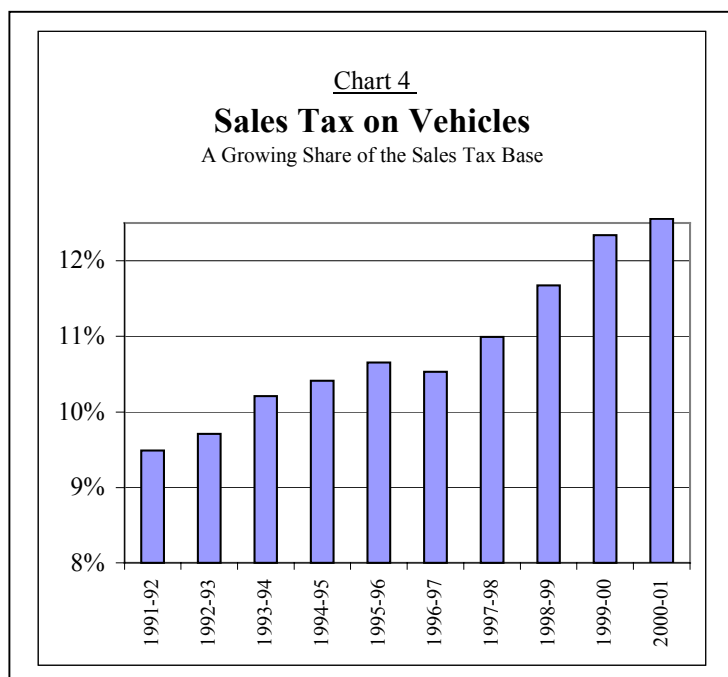
Questions for the Committee.

- Is the allocation of funds in Proposition 51 consistent with the capital outlay plan developed by the Department of Finance pursuant to the Chapter 606, Statutes of 1999 (AB 1473, Hertzberg)?
- What would be the effect of Proposition 51 on meeting the state's capital needs?
- On what basis were priorities set for the projects identified in Proposition 51? Is it consistent with the state process for setting priorities for infrastructure projects in transportation or resources?

Impact on the General Fund

The initiative shifts about \$1 billion from the General Fund annually, starting on January 1, 2003. The amount of the shift is the portion of the state sales tax that is attributable to sales and leases of motor vehicles, primarily cars.

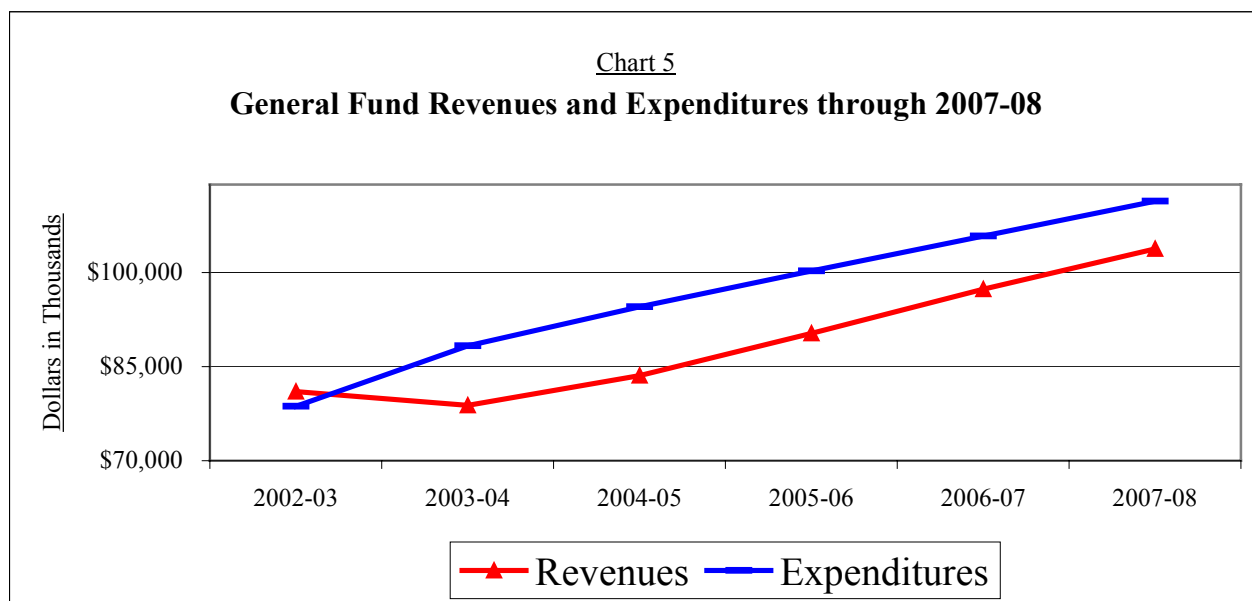
The sales tax base for motor vehicles has steadily increased since 1991-92. In that year, the tax base for motor vehicles was \$24.5 billion. By 2000-01, the base had grown to \$54 billion, an increase of 120 percent. At the same time, total taxable sales increased from \$273 billion to \$447 billion, a 60 percent increase. Taxable car sales have increased twice as fast as the tax base.



As a result, motor vehicle sales have increased as a share of the sales tax base. In 1991-92, motor vehicles accounted for nine percent of the total in 1991-92. Ten years later, they represented more than 12 percent of the sales tax base. Chart 4 documents cars' growing share of the tax base.

If Proposition 51 had been the law for the last ten years, it would have shifted a growing share of the General Fund. Likewise, if the trend continues after the election, Proposition 51 would earmark a rising share of the state's sales tax base.

Background on the General Fund Condition. The Department of Finance estimates that the 2002-03 budget will run a surplus of about \$1 billion. However, in subsequent years, the state expects to run multi-billion deficits. Chart 5 displays the difference between the forecasted revenues and estimated expenditures. The gap is between \$8 billion and \$11 billion annually.



Effect of the Initiative on the General Fund. The initiative shifts about \$1 billion in revenues annually from the General Fund, thereby reducing the revenue line displayed in Chart 5.

Unless the Trust Fund helps to finance expenditures in assumed as part of the forecasted General Fund condition, the initiative does not change the expenditure line displayed in Chart 5.

Assuming no change in General Fund expenditures, the initiative will increase the annual deficit by about \$1 billion, beginning in 2003-04. By 2007-08, the cumulative deficit would increase by between \$5 billion and \$6 billion.

Questions for the Committee.

- Do the circuit breakers provide sufficient protection to the General Fund?
- How should the Legislature accommodate the \$1 billion General Fund revenue loss?